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Second country cooperation framework for Georgia (2001–2003)

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Introduction

1. The second country cooperation framework (CCF) for the Republic of Georgia for the period 2001 to 2003 has been elaborated based on a joint discussion between UNDP and the Government on national priorities and a consideration of the comparative advantage of UNDP as a major development partner in the country. It draws on the findings of the UNDP country review, on broad-based consultations with civil society, United Nations agencies and donors, and takes into account the experience gained during the first CCF (1997-2000). The CCF has taken into consideration the interim findings of the CCA, which is currently being prepared by the United Nations system and expected to be finished by the end of 2000. The CCF also reflects ongoing discussions between the sister agencies on areas of comparative advantage and takes into account the agencies' respective mandates.

I. Development situation from a sustainable human development perspective

2. The outlook for development in Georgia in 1997, when elaborating the first CCF was more positive than now. The double digit real gross domestic product (GDP) growth rates recorded in 1996/1997 have given way to rates of 2 to 3 per cent for 1998/1999. The country is facing a fiscal crisis with expenditure arrears at the end of 1999 at almost 5 per cent of GDP and revenue collected during the first quarter of 2000 at 25 per cent of the initial target (tax revenues recorded for 1999 were 13 per cent of GDP, one of the lowest in the Commonwealth of Independent States (CIS) region).

3. Poverty indicators have worsened. In the second quarter of 1999 the average poverty rate was 58.5 per cent, a considerable increase from the rate of 43 per cent recorded in 1997 (measured against the subsistence-basket estimate of the State Department of Statistics). While programmes on educational and health reform are being elaborated, the budget crisis is worsening, resulting in months of arrears in unpaid wages and social transfers. This situation, coupled with rising unemployment and lower income levels, forced an almost additional 30 per cent of the population to dip below the poverty line between 1998 and mid-1999. In 1999, the gender balance in the share of income was 39.3 per cent for women and 60.7 per cent for men.

4. The political stalemate on the two internal conflicts in Abkhazia and South Ossetia does not hold prospects for an immediate breakthrough, thus leaving an estimated 280,000 internally displaced people in continued need of special assistance.

5. The current situation, however, does not so much reflect a lack of progress as they point to the inherent weaknesses of the existing economic and governance structures. The sharp drop in GDP growth is a result of the levelling off of recovery-based growth and the incapacity of the economy to withstand external shocks, including the Russian crisis in 1998. It also reflects the inability of the Government to generate and direct investments towards the productive sectors. This is in large part attributed to the very poor basic infrastructure, prevailing political instability and the absence of a climate conducive to investments.

6. In terms of governance, corrupt practices have risen to overshadow any other constraint facing the country. Lack of accountability and transparency in the management of public expenditures is now seen as the single most important factor undermining government efforts to reform and to improve its resource base and to raise its tax revenue. In tandem with fiscal reform is the need for judiciary reform, capacity-building for parliament, of which 6.9 per cent are women, and the streamlining of the national legislative framework to strengthen law enforcement and thereby create an environment conducive to investment, trade and local production.

7. The three most serious challenges confronting the country's development at this point include: (a) depressed levels of investment and productive growth; (b) lack of accountability and the absence of law enforcement mechanisms to ensure efficiency in the public management of resources; and (c) the absence of a viable solution to internal conflicts, which is further complicated by regional instability, especially on the country's northern border.

8. Although daunting, these challenges should be seen in the light of certain considerable achievements, which offer real opportunities for further improvement, and the repeated government commitment to addressing these bottlenecks.

9. Between 1998 and 1999, Georgia achieved deeper integration with Europe by becoming a member of the European Council. This followed important democratic reforms and the establishment of a legislative base that complied in most part to European standards. Having completed two rounds of parliamentary elections, one round of local elections and two rounds of presidential elections, Georgia has demonstrated its commitment to democratic principles. The legislative branch of the Government is powerful and actively participates in decision-making. The judicial branch of the Government has also undertaken serious reforms. There is freedom of the press, an office of the ombudsman has been established and civil-society development is generally encouraged. While serious human rights violations continue, Georgia clearly serves as a model in the region for its bold moves towards democracy.

10. The economic front has also seen some remarkable achievements. In 1999, Georgia became a member of the World Trade Organization (WTO). While this in itself does not promise to bring about serious improvements, it nevertheless offers an opportunity for Georgia to improve its standards of quality and to benefit from larger markets that might have a positive impact on its underdeveloped export base. In the second quarter of 2000, Parliament ratified the Baku-Ceyhan pipeline agreement while the earlier transportation of oil through the Azerbaijan-Supsa terminal had already begun.

11. In October 1999, the Citizen's Union of Georgia won an overwhelming majority in parliamentary elections. This was followed by a landslide victory for President Shevardnadze in April 2000. The ruling party, therefore, enjoys a serious opportunity to consolidate its power and to make some progress on a number of fronts. The election programme of the President focused primarily on the following priorities: fighting corruption, consolidating the country's integration by resolving outstanding conflicts, and halving poverty levels by the year 2005 while raising general living standards. In June 2000, Parliament completed its formal adoption of the new governmental structure and approved its new members. It is hoped that Georgia will live up to the challenges it faces, by realizing its aspirations for true democracy and a free-market economy.

II. Results and lessons of past cooperation

12. The first CCF for Georgia focused on three priority areas: (a) poverty reduction through policy advice and rehabilitation; (b) capacity-building for governance; and (c) environmental management and conservation. The country review conducted in March 2000 confirmed that UNDP enjoys a very close partnership with and full trust of the Government. The review also confirmed that the projects implemented bore clear linkages to the priority areas identified in the CCF and that they represented appropriate entry points for addressing the pressing needs of the country. The programme to incorporate policy-development support and to focus on institutional capacity-building within central entities was seen as crucial for creating a favourable environment for policy development, which is essential during statehood building. The review finally took note of the achievements of the programme in building partnerships with civil-society institutions and the private sector.

A. Results

Poverty reduction through policy advise and rehabilitation

13. Poverty reduction efforts led to increased awareness of human-development principles in the reform process, thereby informing policy discussions on the need to improve the targeting of the most vulnerable segments of the population and to make public spending more efficient. The national human development report (NHDR), published yearly since 1996, has been critical in bringing to the forefront discussions on budgetary allocations to social sectors. Although government spending on social security and welfare fell drastically in 1999, positive trends can be observed in the increased allocations from the consolidated budget to education (5 per cent increase in real terms) and to healthcare (60 per cent) as compared to 1998.

14. The programme also attached considerable importance to diversifying the country's revenue base. It supported the development of a centralized mechanism to promote investment and enhanced the central capacity of the Government to administer land registration. Finally, through partnerships with two key

private-sector companies, the programme facilitated their role in promoting investments intended to generate employment and to address environmental degradation in their respective sectors.

Capacity-building for governance

15. The programme has focused on enhancing the decision-making processes of central government institutions by introducing improved information systems, which have facilitated the modernization of organizational systems and information exchange. UNDP work with the Anti-corruption Group represents the only effort on the part of the donors to work with civil society to reveal, using research and analysis, the depth and scope of the corruption problem in Georgia. In addition, UNDP assisted in the elaboration of key policy frameworks, including (a) the national security concept; (b) the country's aid coordination and management capacity; and (c) mechanisms and entities whose purpose is to ensure adherence to the rule of law and democracy, including strengthened capacity for the Constitutional Court and the establishment of an independent and fully operational Public Defender's Office. Governance, broadly defined, constituted the bulk of the programme and it attracted the highest levels of bilateral cost-sharing.

Environmental management and conservation

16. UNDP interventions focused on helping Georgia to comply more closely with environmental conventions by initiating programmes to improve the efficiency of resources allocation and management with support from Global Environmental Facility (GEF) resources. Georgia has made some progressive steps towards global environmental protection, by ratifying major conventions and making efforts to implement them with GEF support. The national environmental action plan was approved last year as the major tool for addressing environmental issues.

17. Two positive elements of the programme need further highlighting. The first is the flexibility of the country office in responding to identified needs and its ability to take decisions on the allocation of resources. The second has been its demonstrated ability to launch, develop and manage umbrella programmes to attract donor financing. At least two UNDP projects serve as examples for this: support to the Office of the Public Defender and support to the Georgian Investment Centre.

18. Four contributing factors have been decisive: (a) the availability and predictability of core/seed funds; (b) the attractiveness to donors of national institutions assuming "ownership" of the above-mentioned initiatives; (c) the ability of programming tools to respond to evolving national priorities in a timely fashion; and (d) the adequacy of the reporting and monitoring systems offered through the national execution modality. While the latter three factors are likely to be sustained during the next period, the increasing cuts in target for resource assignment from the core (TRAC) allocations and the inability to predict funding levels are likely to pose a great constraint to further resources mobilization.

B. Constraints and lessons learned

19. The country review report indicated that although the programme has been largely successful and instrumental to the country's development process, it has also faced a number of constraints. The most crucial constraint faced by UNDP was the difficult economic situation in the country. As a consequence, the Government failed to meet some of its cost-sharing contributions. Another was the risk of non-sustainability of some initiatives beyond the lifetime of UNDP involvement.

20. Given the low budgetary allocations available to key institutions, UNDP had to extend direct support alongside its technical support. In most cases, however, the key role played by these institutions in advising state policy justified UNDP support of them.

21. UNDP collaboration with United Nations agencies as implementing agents registered mixed results, according to the country review. Agency involvement generally resulted in considerable delays, particularly in reporting on results and expenditures. In some cases, it also limited the capacity of the country office to solicit cutting-edge expertise on substantive issues and to bring forward its views adequately in the decision-making process. As a result, UNDP continued to opt for national execution or execution by non-governmental organizations (NGOs) for most of its projects while relying more heavily on information- and knowledge-based networks offered through UNDP. The brief experience that the country office had with discussion networks and the subregional resource facility (SURF) of the Regional Bureau for Europe and the Commonwealth of Independent States (RBEC) was

positive. In the context of the common country assessment (CCA), the country office will continue to draw on United Nations partner's respective expertise and strength for support in programme formulation and implementation, especially when the comparative advantage of the agency is evident.

22. Another constraint that has clearly impacted on the programme has been the ongoing security problem resulting from internal conflicts. More generally, limited political stability has undermined the country's efforts to generate much needed investments and to gain from potentially beneficial regional cooperation. For UNDP, it has also meant limited possibilities to operate more actively in conflict regions and to address post-conflict reconstruction and rehabilitation needs, for which a number of contingency plans have been elaborated.

III. Objectives, programme areas and expected results

23. Building on the experience of the first CCF and on unchanged national priorities, the second CCF for Georgia will continue to target its interventions at the central and upstream policy level of decision-making. The country office will continue, with its reduced budget, to focus its interventions on policy advise through ongoing projects, many of which were approved in the last year of the first CCF. In line with national priorities and key issues and recommendations outlined during the CCA formulation process, the second CCF will focus on two priority areas: (a) improved economic, political and social governance; and (b) poverty reduction through advocacy and support to equitable economic growth.

24. UNDP will actively support initiatives to improve the management and conservation of natural resources. This will include energy conservation, seeking renewable energy sources and making use of transboundary waters. UNDP will primarily finance these initiatives through GEF funds. There is considerable scope for enlarging the GEF portfolio through continued proactive participation by the country office in the environment sector and sustained cooperation with bilateral donors to attract additional funding. Having assisted in the completion of a national action plan for gender, UNDP will continue to promote gender equality as a cross-cutting theme in all its programmes, giving special consideration to and addressing development constraints specific to women and encouraging women's participation in capacity-development opportunities.

A. Improved economic, political and social governance

25. The objective in this area will be to support, through policy advise and institutional capacity-building, the realization of a system of governance that is accountable and respects the rule of law.

26. UNDP interventions will focus on three subprogrammes with the following expected outputs: (a) an improved system of accountability through a more efficient management of public expenditures; (b) enhanced decision-making processes and coordination through the introduction of modernized systems of information exchange; and (c) effective enactment of rule of law and democratic principles.

Improved system of accountability

27. UNDP will continue its partnership with the Anti-corruption Centre, to raise public awareness on corruption issues further, thereby maintaining public pressure for increased government accountability. UNDP will support the elaboration of a national-corruption index that will serve as a tool to monitor progress in this area. The expected result is a national anti-corruption programme, to be endorsed by the parliament and the President. UNDP participation in donor/government working groups will continue to serve as an important entry point for influencing decisions to improve the level of transparency in public-sector practices.

Introduction of modernized systems of management and information exchange

28. Building on past experience with the State Chancellery and the Ministry of Foreign Affairs, UNDP will utilize the capacity of a local team of consultants to support central and local institutions in improving the efficiency of their management systems and information exchange. These projects, three of which have already been identified, will result in improved coordination between various state entities, improved management of resources at the governorate level and improved information exchange between

parliamentary committees and between the parliament and the public. These projects will rely predominantly on government and donor funding.

29. UNDP will also help the Government to elaborate a national information policy framework which is expected to direct policy formulation and adoption on information access and exchange. It will also continue its capacity-building support to the Central Aid Coordination Agency that oversees the coordination of donor-funded programmes to Georgia, including the arrangement of consultations on the poverty reduction strategy paper.

Effective enactment of the rule of law and democratic principles

30. UNDP will continue to support the Public Defender's Office, coordinating donor assistance in this area. The expected outcome of this initiative will be the improved credibility of the Office and its proven capacity to handle and respond effectively to cases of human-rights violations.

31. Since internal conflicts will continue to pose the greatest constraint to political stability in Georgia, and therefore to improved systems of political governance, UNDP will work closely both with the Government and with local communities on conflict resolution and on bringing peace to conflict regions. Under the leadership of the Special Representative of the Secretary-General, UNDP will continue to lead the Working Group on Social and Economic Reconstruction within the framework of the peace negotiations led by the United Nations between Abkhazia and Georgia, known as the Geneva process. UNDP will also continue its support of national institutions mandated to take part in facilitating the negotiation process. Finally, UNDP will work through the United Nations Volunteers (UNV) programme on community empowerment to promote peaceful coexistence and to support the elaboration of early warning systems, starting with a pilot project in southern Georgia.

32. As the country's economic and political integration with regional alliances and groupings constitutes another important element of stability and growth, UNDP will draw on regional funds to support government efforts in this direction. Joint programmes with UNDP in Azerbaijan and Armenia will also be sought so as to enhance cooperation and stability at the subregional level.

B. Poverty reduction through advocacy and support to equitable economic growth

33. The objective in this area will be to support the elaboration and/or implementation of policies and mechanisms that promote economic growth, while ensuring an equitable distribution of wealth with adequate targeting of the most vulnerable segments of the populations.

34. UNDP interventions focus on three subprogrammes with the following expected outputs: (a) an improved system of social targeting that supports the reduction of poverty levels; (b) increased public awareness of poverty issues and civil-society involvement in policy-making; and (c) an enhanced national capacity to broaden the country's productive base and levels of investment.

An improved system of social targeting and reduced poverty levels

35. In partnership with the World Bank and the International Monetary Fund (IMF), UNDP will support government efforts to elaborate a national poverty reduction strategy. UNDP support will be provided in the form of technical expertise; assistance in establishing a database to monitor poverty indicators; and coordination of the consultative mechanisms set up to elaborate the strategy. UNDP will draw linkages between this process and its ongoing work with United Nations sister agencies on the CCA. It will ensure that the United Nations system provides support for the realization of established targets in line with national commitments to United Nations conventions. The completion of the CCA for Georgia will be followed by the formulation of the United Nations Development Assistance Framework (UNDAF) in 2001.

36. In parallel, UNDP will continue its work with Government, the World Bank, the United Nations Office for the Coordination of Humanitarian Affairs (OCHA) and the United Nations High Commissioner for Refugees (UNHCR) to define a new approach, and eventually a comprehensive programme, for addressing the needs of internally displaced persons (IDPs). This programme is expected to have two major outcomes. It will address the existing shortcomings of current available assessments of IDP vulnerability by qualifying information on IDPs, with the expected

result of increasing the level of social transfers to the most vulnerable segments of the population. The programme will also facilitate the political, economic and social mainstreaming of IDPs into local communities, while improving their means of achieving better livelihoods and their access to state-managed social services. While the Government will continue to assume ownership of the programme, UNDP will continue to play the lead role in facilitating donor support essential for the success of the programme, both politically and financially.

Increased public awareness of poverty issues and civil-society involvement in policy-making

37. UNDP will continue to build on its universal mandate for poverty reduction and a people-centred approach to development through its various policy instruments, including most notably the NHDR and the Discussion Paper Series. These publications will be closely linked to UNDP interventions and will serve as a platform for UNDP to advocate its central themes.

Expanding the country's revenues and productive base

38. Subject to the availability of non-core funding, UNDP will continue its support of ongoing initiatives targeted at expanding the country's revenue and productive base. This will primarily be achieved by continuing to support the Georgian Investment Centre and improve government capacity to manage the national debt. Opportunities for replicating pilot partnerships with private companies will also be sought, if they demonstrate a potential for attracting increased levels of external and internal investments.

IV. Management arrangements

A. Programme management

39. National capacity-building and ownership will continue to be the overriding principles of UNDP cooperation in Georgia. National execution, therefore, will continue to be the governing modality, currently representing over 95 per cent of the projects support by the country office, thus providing an important opportunity for national institutions to build their own longer-term capacity to manage resources and systems. Furthermore, the experience of UNDP in this area resulted in high delivery rates registered through the cycle, coupled with a very low administration/delivery ratio of less than 15 per cent. Systems already developed by the country office will be utilized for efficient reporting and enhanced financial accountability. The country office will provide training to counterparts to ensure the proper functioning of this system. To the extent possible, UNDP will outsource management responsibilities so as to concentrate on country office capacity on substantive policy advice. In this effort, the country office will pay particular attention to expanding its knowledge-based networks, as a means of enhancing in-house substantive capacity but also as a service to national counterparts. Over the coming years, therefore, the country office will move towards becoming an information hub with connectivity ensured with all its counterparts. Cooperation with United Nations agencies, as implementing agents, will be sought in cases where the comparative advantage of the agency is evident. The country office will pay closer attention to introducing exit strategies to ensure the sustainability of capacity built. This may include special schemes to retain qualified staff, the progressive increase of the government cost-sharing contribution to the project, and the implementation of training plans for local counterpart staff.

40. The experience of the first CCF in its extensive use of national experts has generally been very positive. In its formulation of new projects, however, the country office will explore more innovative ways to enrich existing national knowledge in the various intervention areas. The country office will more actively seek to utilize the Technical Cooperation among Developing Countries (TCDC) modality particularly with CIS and Eastern European countries who have, or are going through, similar processes of statehood building and transition to democratic and liberal systems of economy. In pursuing this, the country office will draw on opportunities offered through the regional programme and explore more avenues for joint programming with neighbouring countries.

41. Responding to the prevailing situation, UNDP will emphasize partnerships for development and only approve projects that leverage significant additional resources and limit interventions to partnerships with other bilateral and multilateral donors. The country office will make every effort to renew donor

commitment to projects that demonstrated results in the first period and for which it cannot provide any further core funding.

42. UNDP will also use its past experience with private partnerships to leverage private funding for initiatives that have the potential to generate higher income levels through employment creation and investments. These pilot initiatives will help to attract larger investments from international financial institutions.

43. Partnerships with civil-society organizations will continue to be strengthened by increasing their involvement in UNDP advocacy work for equitable growth and the right to human security. In addition to its efforts to enhance closer partnerships between the Government and civil society, UNDP will seek ways to strengthen capacity at the local level with the aim of enhancing vertical linkages within the Government.

44. The UNV programme, with its present focus on community development, confidence-building in conflict areas and conflict prevention, will be further expanded. The programme will continue to be financed fully through bilateral donor funding.

45. Partnerships with international financial institutions will be strengthened in order to expand further opportunities for joint programming.

B. Monitoring, review and reporting

46. The country office will continue to focus on project formulation and to support results-based management. The necessary tools and instruments were already developed in the first CCF and will continue to be used most efficiently. The country office will make use of external evaluations when necessary and will continue to use corporate reporting instruments, including above all the strategic results framework (SRF) and the results-oriented annual report (ROAR), to report on programme impact and achievement of results.

C. Resource mobilization

47. The resource mobilization efforts of the country office will be pursued to attract additional and complementary resources. This has been and will continue to be key to enhancing UNDP credibility and position in the country. With severe reductions in TRAC allocations, the ability of the country office to leverage additional funding at the level recorded from the first CCF period is expected to be considerably eroded. With very limited seed money, UNDP credibility as a serious partner is also likely to suffer and may run the risk of being marginalized. Despite these difficulties, the country office will continue to give the highest priority to expanding its resource base through the cost-sharing modality. The country office, nevertheless, must receive the support of UNDP headquarters to access non-core resources, including trust funds, global programmes, the Global Environment Facility, the United Nations Fund for International Partnerships (UNFIP) and TRAC 1/3, in order to support interventions that fall within the scope of these facilities.

Annex

Resource mobilization target table for Georgia (2000-2003)

Source	Amount (In thousands of United States dollars)	Comments
UNDP regular resources		
Estimated carry-over into 2001	747	Includes carry-over of TRAC 1, TRAC 2 and the earlier AOS allocations.
TRAC 1.1.1	2 240	Assigned immediately to country.
TRAC 1.1.2	0 to 66.7 per cent of TRAC 1.1.1	This range of percentages is presented for initial planning purposes only. The actual assignment will depend on the availability of high-quality programmes. Any increase in the range of percentages would also be subject to availability of resources.
TRAC 1.1.3	395	
SPPD/STS	174	
Subtotal	**3 556[a]**	
UNDP other resources		
Government cost-sharing	10 000	Of which 2 531 is confirmed.
Third party cost-sharing	2 000	Out of the 2 000 an amount of 315 has been committed.
Funds, trust funds and other	3 096	
of which:		
GEF	3 000	
SIDA	96	
Subtotal	**15 096**	
Grand total	**18 652[a]**	

[a] Not inclusive of TRAC 1.1.2, which is allocated regionally for subsequent country application.

Abbreviations: AOS = administrative and operational services; GEF = Global Environment Facility; SIDA = Swedish International Development Agency; SPPD = support for policy and programme development; STS = support for technical services; TRAC = target for resource assignment from the core.